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ABSTRACT

The federal government needs to provide employment and training assistance to help dislocated workers to become reemployed. Worker mobility assistance should not be focused upon as a major thrust of reemployment programs, since American workers are remarkably resistant to pressures to move to more promising labor markets. Efficient and effective forms of federal aid to dislocated workers are job searching assistance in the period immediately following dismissal and financial assistance for specific skill training for a subset of workers who will be making a major occupational transition. The Comprehensive Employment and Training Act delivery system designed to serve disadvantaged persons should not be the delivery vehicle for serving dislocated workers who share employment and training needs in common with the mainstream work force. The service delivery institutions for meeting these needs should serve the entire work force. Appropriate delivery institutions are a short-term job development and placement operation that would move temporarily into locales of massive layoff or substantial long-term economic decline modeled on the Canadian Manpower Consultative Service and a national training fund for workers seeking midcareer retraining modeled on the French Further Vocational Training System. (YLB)

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by

Marc Bendick, Jr.

February 1982

Research Paper

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A Report to the National Commission for Employment Policy

WORKERS DISLOCATED BY ECONOMIC CHANGE: TOWARD NEW INSTITUTIONS FOR MIDCAREER WORKER TRANSFORMATION

by

Marc Bendick, Jr.

The Urban Institute

February, 1982

SUMMARY

The American economy is experiencing rapid structural change, associated with causes such as increasing foreign competition, technological advances, energy price rises, and consumer demographic trends. One consequence of these shifts is that some number of "mid-career," non-disadvantaged American workers find themselves unemployed, despite having previously enjoyed relatively stable work histories, high skill levels, and high wages. A previous paper by the present author estimated that the number of such workers, as of March 1980, ranged between 400,000 and 900,000, depending on the definition used. The present paper examines the question of what forms of employment and training assistance the federal government might most usefully provide to assist these workers to become productively reemployed. As part of this examination, the appropriate role of the existing CETA delivery system is explored.

Typical workers dislocated by economic change are very different from typical disadvantaged workers, who have been the primary recipients of federal employment and training attention during the past decade. They are better educated, have enjoyed more steady and extensive job experience, and are used to commanding comparatively high salaries and fringe benefits. Furthermore, the condition of dislocation--in the sense of having become unemployed from an occupation or industry experiencing long-term employment decline--is not a powerful predictor of experiencing unemployment of unusually long duration or involving severe economic hardship. Thus, the rationale for assisting dislocated workers on traditional equity grounds of assisting workers at a disadvantage in the labor market is virtually nonexistent.

Just as the reasons for aiding dislocated workers differ from the reasons for aiding disadvantaged workers, so the employment and training needs of the two groups differ. In particular, dislocated workers generally would not benefit from the "pre-work-readiness" training and "starter" work experience programs which have been the mainstays of federal employment and training programs for the disadvantaged. Rather, the highest priority needs of the typical dislocated worker are twofold:

- o job search assistance in the period immediately following dismissal; and

- o financing of specific skill training for a subset of workers who will be making a major occupational transition.

A third possible need for federal action--worker mobility assistance--is examined in this paper but rejected as a priority need.

Because the two populations--dislocated workers and disadvantaged workers --are different in background and needs, it is difficult to make a presumptive case that the CETA delivery system, designed to serve the disadvantaged, should be the delivery vehicle for serving the dislocated; nothing so simple as deleting the income test for eligibility for CETA Titles IIB and IIC is appropriate.

Instead of sharing their employment and training needs in common with disadvantaged workers, dislocated workers share them in common with the majority of the mainstream workforce. These needs reflect basic private market failures in the general labor market, not problems exclusively faced by workers dislocated by economic change. Therefore, the service delivery institutions for meeting these needs should serve the entire work force rather than dislocated workers per se. Specifically, this paper proposes the creation of two such institutions:

- o A short-term job development and placement operation which would move temporarily into locales of mass layoff or substantial long-term economic decline.

- o A national training fund for workers seeking midcareer retraining.

The Canadian Manpower Consultative Service provides a model for the first type of institution, while the French Further Vocational Training System provides a model for the second type.

I. INTRODUCTION AND OVERVIEW

The American economy is in an era of rapid economic change. The swift pace of technological innovation; the increasing challenge of foreign competition; dramatic shifts in the price of key industrial inputs, notably energy; major changes in consumer characteristics and consumer tastes; and unpredictable redirections in government policies and expenditures all contribute to the rise of certain industries, regions, and occupations and the decline of others.[1] One consequence of these changes is that a substantial number of "midcareer," "mainstream" American workers have found themselves in the ranks of the unemployed, despite having previously enjoyed relatively stable work histories, high skill levels, and high wages. A previous paper by the present author estimated that the number of such workers, as of March 1980, ranged between 400,000 and 900,00 depending on the definition used.[2]

For approximately the past fifteen years, federal programs dealing with the employment and training needs of the unemployed have focused on persons quite different from these workers dislocated by economic change: disadvantaged workers, typically characterized by unstable labor market experience, low skill levels, and low wage rates. This targeting is clearly characteristics of activities under the Comprehensive Employment and Training Act (CETA), and of federal initiatives on youth employment as well. Not since the

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[1] On such changes, see Marc Bendick, Jr., A Federal Entrepreneur? Industrial Policy and American Economic Revitalization (Washington, D.C.: The Urban Institute, 1981); Kathryn Rudee Harrigan, Strategies for Declining Businesses (Lexington, Mass.: D.C. Heath, 1980); Gail Garfield Schwartz and Pat Choate, Being Number One: Rebuilding the U.S. Economy (Lexington, Mass.: D.C. Heath, 1980); and The Impact of International Trade and Investment on Employment (Washington, D.C. Department of Labor, 1978).

[2] See Marc Bendick, Jr., and Judith Radlinski Devine, "Workers Dislocated by Economic Change: Do They Need Federal Employment and Training Assistance?" in Seventh Annual Report of the National Commission for Employment Policy (Washington, D.C.: The Commission, 1980):175-226.

Manpower Development and Training Act (MDTA) of 1962 have major federally-sponsored employment and training efforts been directed explicitly to the needs of the nondisadvantaged structurally unemployed.

Redirection of federal employment and training efforts away from disadvantaged workers and toward workers dislocated by economic change would obviously entail changes in program eligibility rules. At the same time, it should also entail changes in the services being provided and their mode of delivery. This is true because the two types of workers are very different in their characateristics and their needs. The most specific goal of this paper is to suggest the sorts of employment and training services which would be most useful in assisting dislocated workers to become reemployed. To do so, the paper examines, in turn, mobility assistance (in chapter II), job search assistance (in chapter III), and retraining assistance (in chapter IV). It concludes that certain forms of job search assistance and retraining assistance would probably be efficient and effective forms of federal aid to dislocated workers, while mobility assistance would probably not be a very useful approach.

The most important theme of this paper, however, is not contained in its specific conclusions concerning these three modes of employment and training assistance. Rather, the most significant message of this report concerns the basic way in which the issue of dislocated workers is approached. Most discussions concerning employment and training services for workers dislocated by economic change have been structured in much the same way that discussions of such services for disadvantaged workers has been structured. That is, dislocated workers are thought of as a distinct population of individuals, a population which is relatively easy to define by program eligibility rules and whose need for services are both relatively homogeneous

and distinct from the needs of other workers. My previous paper on dislocated workers, by describing the characteristics of these workers and their labor market circumstances, suggested the inappropriateness of this thinking and argued against the creation of new federal employment and training initiatives with such workers as their target population. Among other things, that paper concluded that:[1]

- o The overall magnitude of the dislocated worker population is not strikingly large. For example, even by the broadest definition employed in that paper, they constitute less than one percent of the U.S. labor force and less than 14 percent of the unemployed.

- o The category of dislocated worker itself is at most a weak predictor that an unemployed person will suffer long periods of unemployment, special difficulties becoming reemployed, or extreme economic hardship while unemployed.

- o To the extent that dislocated workers do experience unusually long periods of unemployment, the causes of this long duration generally reflect past and present affluence rather than past or present distress. These "disabilities of affluence" include geographical immobility arising from homeownership; financial incentives to wait inordinately long for recall from layoff, lured by very high wages and generous fringe benefits enjoyed on that previous job; and lack of financial pressure to seek immediate reemployment, because of generous coverage by wage replacement programs and the presence of other earners in the family.

Such circumstances do not seem to provide a rationale for assistance to dislocated workers per se.

And yet a number of rationales do exist for federal employment and training activities, based on the failure of the private market to operate efficiently for the labor market in general. The increasing pace of economic change, of which dislocated workers are a symptom, exacerbates these failures. In rejecting the notion that dislocated workers as such should receive federal employment and training assistance, we should not overlook the rising

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[1] See Bendick and Devine, Workers Dislocated by Economic Change, op. cit., p.217.

need for federal employment and training activities addressing those failures and serving dislocated workers as part of serving the total labor force. These key private market failures, which are discussed in greater detail later in this report, are:

- o Lack of adequate job search skills on the part of unemployed individuals
- o Lack of adequate institutions to assist unemployment individuals in searching for jobs.
- o Failure by employers to provide adequate training for their employees.
- o Failure by individuals to purchase adequate training for themselves.

Because these problems afflict the labor force in general, rather than workers dislocated by economic change exclusively, the problems of dislocated workers are more more appropriately addressed if dislocation is seen less as a characteristic of an identifiable population of individuals than as a recurrent temporary condition in the career of the majority of workers. This latter approach accepts the rapid and increasing pace of change in the economy as an ongoing and increasingly universal fact of economic life.

Such a change in basic perspective carried important implications for current policy debates concerning the federal employment and training initiatives for the dislocated. In particular, it implies a shifting of discussion away from such topics as possible "retargeting" of CETA (or CETA-like) resources from the disadvantaged to the dislocated (e.g., through alteration of the income-eligibility limits for CETA Titles IIB and IIC); and it broadens the scope of interest beyond dislocated workers who exhibit labor market difficulties (e.g., by experiencing unemployment of long duration). Instead, it focuses discussion on the transitions which all workers must undergo when

faced by economic change, whether or not those transitions are marked by unemployment and whether or not these workers are identifiable as "dislocated." And it suggests the need to think in terms of new public labor market institutions to serve the entire labor force, not just some identifiably-distressed subset of workers.

Chapter V of this report will argue the need for two such new labor market institutions: one for job search assistance in labor markets experiencing sudden or sustained high levels of unemployment and one for financing the retraining of mid-career workers. In each case, an existing program in a foreign nation--Canada and France, respectively--is used to indicate the sort of institution which is being proposed.

II. MOBILITY ASSISTANCE

One of the characteristics of unemployment associated with structural changes in the economy is that it tends to concentrate in locales where industries in decline are concentrated. High unemployment rates in these locales may coexist with low unemployment rates elsewhere in the country. For example, the following unemployment rates all were recorded during the month of July 1980:[1]

Areas of High Unemployment	Unemployment Rate
Flint, Michigan	22.4%
Elkhart, Indiana	19.7
Saginaw, Michigan	17.1
Decateur, Illinois	16.0
Youngstown, Ohio	14.3
Johnstown, Pennsylvania	13.4

Areas of Low Unemployment	Unemployment Rate
State of Wyoming	3.8%
Lafayette, Louisiana	3.9
Austin, Texas	4.0
Houston, Texas	4.4
Tulsa, Oklahoma	4.8
Raleigh-Durham, North Carolina	4.9

It is definitely harder for job seekers to find employment in areas of few vacancies and many job seekers,[2] but that is precisely where many workers dislocated by economic change currently live. Therefore, one way for them to enhance their chances of becoming reemployed would be to migrate to areas of low unemployment and rapid job growth. The question for public policy is:

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[1] U.S. Department of Labor, Employment and Earnings 28 (September 1981), Table E-1.

[2] In my previous study of dislocated workers for the National Commission for Employment Policy, I estimated that if a worker unemployed by economic change lives in an area with an unemployment rate above 8.5 percent, his expected duration of unemployment is increased about 20 percent. See Bendick and Devine, "Workers Dislocated by Economic Change," op. cit., p.199.

should the federal government provide financial assistance or special employment services to encourage and assist such migration?

In seeking an answer to this question, we shall first describe the nature of barriers to mobility, and then we shall examine the record of past government efforts at mobility assistance.

Barriers to Worker Mobility

Compared to many other industrialized nations, the United States is a relatively mobile society. For example, as of 1970, some 47 percent of U.S. households moved during a five year period, compared to 33 percent of households in Japan and 38 percent in Great Britain.[1] And yet the degree of residential mobility should not be overestimated. For one thing, a substantial proportion of all moves are undertaken by a small proportion of households who move repeatedly, leaving a large proportion of the population who move seldom or never. Furthermore, the tendency for households to move falls rapidly as the household becomes older; for example, as of 1970, some 71.6 percent of households in the 25 through 34 age range moved within a five year period, while only 32.4 percent of households in the 45 through 54 age range did so.[2] Finally, more than half of all residential moves involve remaining within a local area; only about 20 percent involve moves across state lines.[3] Such numbers do not suggest that a large proportion of workers dislocated by economic change would be readily amenable to moving long distances to seek reemployment.

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[1] See Larry H. Long and Celia G. Boertlein, The Geographical Mobility of Americans, An International Comparison, Current Population Reports Special Studies Series P-23, Number 64 (Washington: U.S. Bureau of the Census, no date).

[2] Long and Boertlein, op.cit., p.9.

[3] Long and Boertlein, op.cit., p.20.

Several elements contribute to this general reluctance to move. One is the psychological and sociological roots of family, church, and community, attachments which often are particularly important among blue collar industrial workers of strong ethnic background who comprise a substantial part of the current population of dislocated workers. Another element is the constraint of homeownership. Many dislocated workers have been affluent enough to become homeowners, and the financial costs of selling one home and purchasing another can be a major deterrent to moving.[1] The financial costs of such moves are particularly prohibitive if the home to be sold is in a depressed, low-price housing market (for example, Detroit or Youngstown) and the home to be purchased is in a growing, high-priced housing market (such as Houston or San Diego).[2] A third element creating barriers to mobility is the presence of a second earner in the households of many dislocated workers.[3] When moving to another city to find a job for one worker requires that another worker in the household quit an existing job, the costs and risks of the move are greatly increased.

Given all these circumstances, it is most sensible to think of the population of dislocated workers as exhibiting a broad range of willingness to

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[1] In my previous study of dislocated workers, I estimated that being a homeowner increases the expected duration of unemployment for a dislocated worker by about 10 percent. See Bendick and Devine, "Workers Dislocated by Economic Change," op.cit. p.204-207.

[2] Furthermore, in recent years, rapidly rising home mortgage interest rates in a high-inflation era have made newly-issued mortgages very much more expensive than mortgages issued in earlier years, increasing the reluctance of homeowners to sell.

[3] In my previous study of dislocated workers, I estimated that about 57 percent of workers dislocated by economic change have one or more additional earners in their household. See Bendick and Devine, "Workers Dislocated by Economic Change," op. cit., p.213.

move. Among those workers who are young, not homeowners, not associated with an employed spouse, and not strongly attached to family and community roots, quite a few individuals would be willing to move. As each of these conditions is altered, however, this willingness would decrease; and many dislocated workers exhibit so many of the factors associated with immobility that they prove extremely reluctant to uproot.

Some indication of the proportion of workers falling into each of the categories can be gleaned from the following data on the mobility histories of workers who were dislocated by economic change as of March 1980. For the five year period preceding their unemployment, 40 percent of these workers had resided continuously in the same house; an additional 37 percent had moved at least once, but only within the same local area; and only 22 percent had moved long distance.[1] Confirming this notion that the proportion willing to move will be modest, approximately 20 percent of enrollees in the Department of Labor's Job Search and Relocation Assistance Pilot Program and 6 percent of enrollees for Trade Adjustment Assistance utilized relocation assistance.[2]

Mobility Assistance Programs

Over the past 15 years, the federal government has been involved in several mobility demonstration projects or pilot projects.[3] Additionally, various mobility assistance provisions have been included in recent ad hoc

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[1] See Bendick and Devine, "Worker Dislocated by Economic Change," op. cit., p.206.

[2] See Michael C. Barth and Fritzie Reisner, Worker Adjustment to Plant Shutdowns and Mass Layoffs: An Analysis of Program Experience and Policy Options. Washington, D.C.: ICF Incorporated, 1981, p.3-32.

[3] For descriptions of some of these efforts, see Charles F. Mueller, "Migration of the Unemployed: A Relocation Assistance Program," Monthly Labor Review (April 1981), pp.62-64, and Audrey Freedman, "Labor Mobility Projects for the Unemployed," Monthly Labor Review (June 1968), pp.56-62.

dislocated worker adjustment programs such as Trade Adjustment Assistance (TAA).[1]

One common form of assistance provided under such initiatives is cash repayment of some of the out-of-pocket costs of moving, primarily the costs of transporting the worker, his family, and his household goods. Such grants typically have been limited to a few hundred dollars; for example, TAA provides for repayment of 80 percent of out-of-pocket expenses, plus a lump-sum payment of three times the worker's average weekly wage, but with an upper limit of $500. However, some programs have been considerably more generous. The Redwood Parks Act offers reimbursement of 80 percent of transportation and living expenses (up to $500); plus reimbursement of household moving expenses; plus up to 10 days of wage; plus reimbursement of the difference between the sale price of a home and its fair market value (or, for renters, the costs of lease cancellation).

It is probably safe to say that cash benefits of a few hundred dollars will have relatively little effect on changing the unwillingness to move of workers who have little prior propensity to move--those who are homeowners, with established families, employed spouses, and strong community roots. Younger, single, less established workers have often been the main volunteers for such benefits, but they probably were fairly willing to move even without such assistance.[2] At the other end of the spectrum, programs which offer to "make good" the financial losses from home sales and to cover the substantial costs of moving large established families and all their household goods are inevitably very expensive per transfer; and even then, they may still serve

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[1] See U.S. Department of Labor, Unemployment Insurance and Proliferation of Other Income Protection Programs for Experienced Workers, Occasional Paper 80-1 (Washington, U.S. Department of Labor, 1980).

[2] Freedman, op.cit., p.59.

more to reimburse the costs incurred by families already willing to move rather than to induce additional movement.[1] Even without carefully controlled data on the effects of such programs, it is reasonable to conclude that modest financial payments primarily reimburse the costs of workers who were relatively mobile even in the absence of these payments; they should not be thought of as a promising way to induce a great deal of additional worker mobility.

A second form of assistance provided by some past mobility assistance programs is that of social-worker type counselling to assist the family to find housing and to resolve family adjustment problems in a new community. The clear evidence from past programs is that such assistance would be of little value to the majority of dislocated workers. To the extent that such assistance has been valuable at all, it has been so primarily for disadvantaged workers, especially those moving to urban settings from rural areas; and in such cases, the most efficient sources for such assistance is the social services system already existing in the new community, not some ad hoc assistance provided by a mobility program. Such assistance is neither necessary nor appropriate for the vast majority of dislocated workers.[2]

The third type of assistance often offered by mobility assistance programs is financial and informational resources for long-distance job search. Included in this category are cash grants to cover the out-of-pocket costs of a job search trip to a distant job market; job fairs at which employers from distant areas are brought to a labor-surplus area to conduct interviews;

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[1] For related evidence on the failure of modest financial incentives to induce household mobility, see Raymond J. Struyk and Marc Bendick, Jr., editors, Housing Vouchers for the Poor (Washington, D.C.: The Urban Institute Press, 1981), chapter 5.

[2] See Freedman, op.cit., p.60. For related evidence which suggests that even disadvantaged families typically do not need such services, see Struyk and Bendick, Housing Vouchers, op.cit., pp.252-259.

information on jobs in distant areas;[1] and facilitation of job interviews via long-distance telephone.

Many of these activities are of relatively low cost to the government to provide and may overcome substantial barriers to mobility for a subset of dislocated workers. After all, the risks of moving are greatly reduced if a job has already been located; some workers and their families who would not be willing to undergo the costs and inconvenience of moving on the possibility of a new job would do so with a definite job offer in hand. Therefore, of the various forms of mobility assistance, this third general category appears the most promising in terms of relative cost-effectiveness.

However, even this relatively cost-effective type of aid should not be expected to generate mobility among the majority of dislocated workers whose circumstances are strongly resistent to mobility. No modest-scale mobility assistance is likely to shift them. And, in consequence, mobility assistance in general should probably not be focused upon as a major thrust of reemployment programs for dislocated workers. As desirable as it might be to move unemployed workers to more promising labor markets, American workers are remarkably resistent to such pressures to move; and most mobility assistance is unlikely to change their minds.

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[1] Inter-area job information provided by the Job Service will be discussed in chapter III of this report.

III. JOB SEARCH ASSISTANCE

Job search assistance refers to the provision to the unemployed of either encouragement to be actively searching for a job, information on job availability, or training in job search and application techniques. Such activities are well-established parts of the repertoire of employment and training services offered by various government programs, past and present, as well as by the private sector, both nonprofit and for-profit.

There is reason to believe that government provision of such services may very well be both useful and cost-effective in the case of many workers dislocated by economic change. There is, of course, wide variation among dislocated workers, as in any large population, of the level of job search skills and resources which individuals will possess. But a substantial proportion of such workers have, prior to becoming dislocated, enjoyed long tenure with one employer. Their job search skills, which may never have been extensive, are therefore often rusty from disuse. Additionally, the experience of becoming unemployed after an extended period of job stability is emotionally traumatic for many workers, making various forms of encouragement potentially important in overcoming lethargy. Finally, many dislocated workers become unemployed as part of plant closures or mass layoffs or in a locale of general economic decline. In such circumstances, run-of-the-mill types of job search approaches--such as asking friends and relatives or checking for postings at local plant gates--may be inadequate, whereas they might have sufficed in more favorable circumstances.

Another consideration which tends to make job search assistance a relatively attractive instrument for government action is its high potential cost-effectiveness, not only from the perspective of society in general but

also from the more narrow perspective of the government's own financial outlays. The costs of job search assistance, per client served, tend to be orders of magnitude below the costs, for example, of worker retraining; while the potential returns--largely in terms of unemployment compensation payments avoided--can be substantial.

Thus, for cost reasons as well as effectiveness reasons, various strategies for job search assistance deserve careful examination in the development of assistance strategies for dislocated workers. In this section, we will review two aspects of such services: the ongoing Job Service and special, ad hoc, experimental, or innovative approaches to job search assistance typified by "job clubs."

The Job Service

The United States' major ongoing governmental institution for job search services is, of course, the federal-state employment service, which in most states is now called the Job Service. In operation since the 1930's, the Service now has approximately 2,600 local offices throughout the United States. Statistics on their scale of operations make clear that the institution is not trivial. In fiscal year 1979, for example, 15.5 million job seekers were registered with the Service; 9.5 million job openings were listed; and 4.5 million individuals were placed.[1]

Despite this large scale of operation, the Job Service has never developed a dominant role as a labor exchange in U.S. labor markets. While the Job Service is involved in millions of job placements each year, this scale of operation is only a small fraction of the total job placements in the country.

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[1] Employment and Training Report of the President, 1980, p.58.

For example, a recent survey of 30 studies of job seeking behavior reported that the average proportion of successful job placements accounted for by the Job Service was 6.8 percent.[1] Furthermore, the dominant types of job vacancies listed in the Job Service files tend to be relatively poorly paid, entry level positions heavily concentrated in domestic service jobs, clerical occupations, and some high turnover blue collar jobs.[2] Thus, without a major change in its overall role as a labor exchange, the Job Service is not prepared to provide information about the vast majority of the job openings relevant to dislocated workers; it does not list the majority of jobs in a locale, and it is particularly short of job openings for experienced and skilled workers.

Several other factors, in addition to its lack of relevant job openings, would tend to hamper the effectiveness of Job Service offices in providing useful assistance to dislocated workers. First, many Job Service offices offer very little counselling or job search advice; to the extent that a dislocated worker needs either encouragement in his search or coaching in search and interviewing skills, the Service is simply not set up to meet those needs.[3] Second, in a time when unemployment is rising rapidly in the jurisdiction of a local Job Service office--as, for example, in a time of mass layoff or plant closure--the office may temporarily shift staff resources away from placement assistance for temporary duty in processing the heavy load of unemployment insurance claims. Third, virtually the only job listings available in a local office refer to the local labor market; the Job Service is

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[1] David W. Stevens, "A Reexamination of What is Known About Jobseeking Behavior in the United States." In Labor Market Intermediaries (Washington: National Commission for Employment Policy, March 1978), pp.99-100.

[2] Barth and Reisner, Worker Adjustment, op.cit., p.3-17.

[3] Barth and Reisner, Worker Adjustment, op.cit., p.3-17

not well set up to provide leads to dislocated workers willing to consider jobs in more distant locales.[1]

Expansion of the role of the Job Service as a labor exchange intermediary may well be a sensible direction for long-term development in the U.S. employment and training system. But the relevant word here is long-term. In its current role, the Job Service has relatively little to offer by way of job search assistance to the majority of dislocated workers; and there is no low-cost, easy, short-term way to develop that capability within the Service.

Job Clubs

If the majority of successful job placements are not obtained through the Job Service, how are they obtained? The answer is: through informal channels of search, primarily personal contacts through friends and relatives and direct application to firms ("at the plant gate"). The survey of 30 job search studies mentioned earlier reported that an average of 34 percent of successful placements came via the former channel and 31 percent via the latter. The entire range of formal channels for job search—including both public and private employment agencies, want ads, and union clearinghouses—each accounted for only a relative scattering of successes.[2]

If this basic fact about successful jobseeking in general applies to dislocated workers as well—and there is not strong reason to believe otherwise—then the keys to successfuly job search for them may be characterized as: a high level of sustained personal effort, maximization of personal

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[1] The Job Service offers an interstate clearance system for job vacancies, but this system does not typically provide substantial assistance to the majority of dislocated workers. Only job openings remaining unfilled more than 30 days even enter the system. Also, utilization of the system depends on initiative by the job seeker and the management of his local Job Service office.

[2] Stevens, "A Reexamination of What is Known About Jobseeking," op.cit., pp.99-101.

contacts, and attractive self-presentation. The emphasis must therefore be on individuals' finding jobs for themselves, rather than on formal intermediaries finding jobs for them.

"Job clubs" are a currently fashionable model of job search assistance institutions which operate in this "self-help" style.[1] A job club is a temporary alliance of job seekers who meet regularly to provide aid and mutual reinforcement to each individual's job search. Normally, they are organized under the aegis of a job search assistance program.

The operating mode of a job club typically includes the following elements.[2]

- o A membership of no more than 25;
- o Regular meetings for substantial amounts of time (e.g., half a day three times per week);
- o Explicit training on specific job search and self-presentation skills (e.g., resume writing, interview techniques); extensive use of practical exercises and role-playing in this training;
- o Provision of job search materials and facilities (newspaper want ads, telephones) for actual job-seeking during the meetings; and
- o An atmosphere of peer pressure and support for a sustained level of search activity.

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[1] On job clubs, see N.H. Azrin, T. Flores, and S.J. Kaplan, "Job Search Clubs: A Group-Assisted Program for Obtaining Employment," Behavior Research and Therapy 13(1975), pp.17-27; B.J. Kemp and C.L. Vash, "A Comparison Between Two Placement Programs for Hard-Core Unemployed Persons," Journal of Employment Counseling 8(1971), pp.108-115; P. McLure, "Placement Through Improvement of Clients' Job Seeking Skills," Journal of Applied Rehabilitation Counseling 3(1972), pp.188-196; G.L. Reid, "Job Search and the Effectiveness of Job-Finding Methods," Industrial and Labor Relations Review 25(1972), pp.479-495; and B.R. Schiller, "Job Search Media: Utilization and Effectiveness," Quarterly Review of Economics and Business 15(1975), pp.55-63.

[2] This description is adapted from Barth and Reisner, Worker Adjustment, op.cit., pp.3-18.

The record of job clubs in terms of both raw placement statistics and cost-effectiveness appears impressive.[1] For example a study of one pilot project estimated that 65 percent of job club participants found jobs within one month, compared to 35 percent in a control group. In a second pilot study, success rates of 62 percent for program participants and 33 percent for controls were estimated; and the cost per placement was estimated to be only $167. A more elaborate job club operation in Midland, Pennsylvania, on the other hand, has operated at an average cost per placement of $795. Since average unemployment benefits in the U.S. average some $400 per month, these cost figures suggest that avoidance of even one or two month's payment of unemployment benefits would more than justify the expenditure.

There are two cautions which must be noted to temper these generally favorable conclusions about job clubs. The first is that it is not clear what elements of the job club treatments are the ones responsible for their apparent success or, indeed, whether packaging these elements together in a club arrangement is essential or ideal. Thus, the success of the clubs should probably be taken most generally as a favorable indication that intensive job search assistance of some form is a useful approach to the problems of unemployed dislocated workers; and that therefore support should be made available to a range of institutionally innovative approaches to delivering these services.

The second caution to be noted is that while this type of job search assistance seems effective with workers who are already motivated enough to be seeking jobs, less is known about the ability of job clubs to motivate and to assist "deeply discouraged" workers who have dropped out of the labor market.

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[1] This paragraph is based on the summary presented in Barth and Reisner, Worker Adjustment, op.cit., p.3-19.

A typical prerequisite to receiving assistance from a job club is that a job seeker volunteers to participate. This willingness to enroll voluntarily probably indicates at least a degree of hope that jobs can be found and a degree of willingness to put out effort. There is no evidence that, for example, mandatory participation in a job club program as a prerequisite for receiving unemployment compensation payments would lead to a similarly favorable record of success.

Conclusions

Many—perhaps even a majority—of workers dislocated by economic change face the need to make a major job transition. At the least, they need to replace the job they have lost. They will have to find job openings and to "sell themselves" to a new employer, tasks which many of them may not have undertaken in some years. In many cases, they will not directly replace that job but instead repackage their skills to undertake a different occupation. And, in almost all cases, they will be undertaking these tasks under the psychological trauma of having been let go involuntarily.[1] In such circumstances, it is not surprising that job search assistance--both specific skill training and the creation of a structured environment of encouragement and regular task assignments—seem to be effective in promoting reemployment. Furthermore, they seem to do so at relatively low cost in comparison to their potential returns.

The current set of governmental job search assistance institutions—notably the Job Service—appears not to represent adequate exploitation of the potential of the job search assistance approach. Additional investment in

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[1] On the psychological impacts of unemployment, see Donald W. Tiffany, James R. Cowan, and Phyllis M. Tiffany, The Unemployed, A Social-Psychological Portrait (Englewood Cliffs, New Jersey: Prentice Hall, 1970).

such assistance resources for workers dislocated by economic change seems a promising general direction for policy; and job clubs seem at least one promising model of a service delivery institution.

IV. WORKER RETRAINING

The level of expenditures per worker in a retraining effort are typically an order of magnitude or more higher than those involved in either job search assistance or mobility assistance. Retraining thus represents a true investment in human capital--an outlay whose benefits must be recouped over a multi-year period--rather than a relatively modest current expense. In what circumstances are such relatively major investments appropriate? This chapter will first discuss whether there is need for government activity in the retraining of workers dislocated by economic change; it will then explore the record of past government training efforts and their implications for the design of systems for delivering training services to dislocated workers.

Market Failure and Midcareer Worker Retraining

One useful way to approach the question of whether government activity in worker training is appropriate is to pinpoint the ways in which the private market does (or does not) fail to supply the socially-desirable amount of training. This question must be subdivided, in turn, into the question of the amount of training purchases by employers for their workers and the amount of training purchased by workers themselves.

Let us deal first with training provided by employers. American industry spends many hundreds of millions of dollar each year on staff training, perhaps as much as $40 to $50 billion.[1] And yet economic theory suggests that this level of activity is almost certainly less than would be in the best long-term interests of our society and economy.

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[1] See Ernst W. Stromsdorfer, "Training in Industry" in Peter B. Doeringer, editor, Workplace Pespectives on Education and Training (Boston: Martinus Nijhoff, 1981), pp.39-53.

In reaching this conclusion, economists start from the premise that firms decide to invest in worker training on the same basis that they decide on all types of investment: whether the financial returns to the firm from the activity justify the cost. Economists then separate training into two types—"general" training, which raises a worker's productivity in a wide variety of employment circumstances, and "firm-specific" training, which enhances a worker's productivity only while working for that specific firm. When a worker is trained to operate a computer which many firms use in their work, the training is of the former type; when a salesman is briefed on the virtues of his company's products, the training is largely of the latter category.

Because firm-specific training only enhances the employee's productivity within the firm providing the training, competitive firms are unlikely to try to attract the newly-trained employee away from the firm providing the training; the enhanced productivity flowing from the training investment will therefore largely remain within the firm providing the training. But an employee given general training will be an attractive target for being recruited away from the firm providing the training via higher wage offers to match his increased productivity. Alternatively, in order to keep the employee from being attracted away, the training firm must raise the employee's salary as fast as his productivity rises. In either case, the financial beneficiary of the training investment is the employee, not the employer; and therefore investment in general training is something that employers are extremely reluctant to do.[1]

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[1] For a more formal exposition of the theory of human capital sketched here, see Gary S. Becker, Human Capital (New York: National Bureau of Economic Research, 1964).

The implications of this reasoning for workers dislocated by economic change are made clear if we relabel the concept of "general training" with the more familiar phrase, "transferable skills." In a typical job, there is little incentive for an employer to provide workers with skills readily transferable to other employment situations. Should an employee find himself suddenly unemployed due to structural decline of his prior occupation or industry, he will typically also find himself with less-than-optimal development of the skills readily in demand in other occupations or industries.

In this reasoning, the financial returns to development of transferable skills accrue to workers themselves, in the form of higher wages and decreased probability and duration of unemployment. Workers themselves then logically would be willing to invest in their own general training. And certainly many cases of workers doing precisely that are readily observable. When a high school graduate goes on to obtain a college degree, he is making such an investment; when a worker takes a job despite a low wage "because it is good experience," he also is making that sort of investment. But a number of circumstances limit the extent to which workers dislocated by economic change are willing or able to undertake the full amount of such investment which would be socially optimal and economically efficient.

The first such circumstance is a <u>shortage of information</u> concerning what type of training is most appropriate to invest in. Many workers dislocated by economic change are in midcareer in terms of age and have enjoyed relatively long tenures in their previous industry or occupation. They therefore are typically quite out of touch with recent information on vocational choices and their personal suitability for various jobs. And, indeed, the problem

does not arise strictly because of the passage of time; many dislocated workers are semi-skilled operatives from manufacturing industries who landed in their original occupations without extensive guidance or deliberate choice.

A second circumstance which interacts with this lack of occupational-choice information is that of risk aversion. Economists' studies may indicate that the average worker who undertakes a particular type of training may expect such and such a return on his investment; but there will always be a dispersion around this average return. Some workers who undertake a training investment in good faith will have difficulty getting placed and will suffer losses on that investment. In circumstances where the worker is unemployed, money will typically be tight in the household; and in the absence of a guaranteed return to this investment--a sure job placement after successful completion of training--many individuals will feel unwilling to take the risk of laying out money for tuition. This unwillingness might be particularly pronounced if the money to pay for training would require borrowing, with fixed future repayment obligations, rather than dipping into past savings.

A final factor which inhibits the willingness of dislocated workers to invest in their own retraining is that of cash flow. When a worker is unemployed, unemployment insurance and other wage-replacement programs typically replace some but by no means all of the worker's normal take-home pay; one recent estimate for 1980 places the average replacement ratio at about 40 percent of pretax earnings.[1] A household's level of expenditures can be adjusted downward only partially and gradually, particularly for established, middle-aged households with fixed commitments such as mortgage payments.

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[1] See Wayne Vroman, State Unemployment Insurance Replacement Rates in 1980 (Washington, D.C.: The Urban Institue, 1980).

Thus, if dislocated workers are to pay for their own retraining, they will have to be making cash outlays for tuition at the very moment when their cash inflow is very heavily committed (and probably overcommitted) to maintaining their previous standard of living.

By pointing out these facts, I do not mean to suggest that the government should be presumed to be responsible for relieving dislocated workers of all costs and risks associated with their own retraining. Many dislocated workers, prior to their disemployment, will have enjoyed relatively high wages for extended periods of employment and will have built up (or, at least, could have built up) substantial personal savings on which they can call; and, as noted earlier in this paper, more than half of dislocated workers have at least one additional earner in their households. Nevertheless, a substantial proportion of dislocated workers would be either reluctant or unwilling to finance their own retraining if substantial outlays are called for; that fact must be recognized, regardless of what economic theory might suggest would be "rational" behavior by these workers in a world of perfect markets.

Government Involvement in Worker Retraining, Past and Present

The most important thing to note about the preceding discussion of worker retraining is that the role which it implies for government action is on the demand side of the market for retraining services. The supplier side of that market—the industry of institutions capable of responding to any demand for such services—is large, diverse, and generally response. Among the major elements of that supplier system are the following:[1]

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[1] Data cited in the following paragraphs are from Digest of Educational Statistics 1980 (Washington, D.C.: National Center for Educational Statistics, 1980), pp.163-173.

- Adult schools, run by local school districts, providing elementary school and high school-level training in basic educational skills, as well as secondary-school level occupational skills, to those beyond normal school age. As of 1975, some 3.5 million adults were receiving general educational training, and 8.3 million were involved in occupational training.

- Public noncollegiate postsecondary vocational schools. Some 812 of these schools across the country enroll students in a wide range of vocational courses, including business/office skills, cosmetology, manual trades, arts/design, and health care paraprofessional training.

- Proprietary noncollegiate postsecondary schools, numbering some 7,600, offer similar training to that offered in their counterpart public schools but do so on a for-profit basis. The total enrollment in both public and proprietary schools in this category totaled nearly 800,000 in 1978.

- Public and nonprofit junior colleges and community colleges, numbering 1,190 in 1978, enrolled more than 4 million students, a substantial proportion of whom were in occupational curricula (rather than in academic curricula designed to enable them to transfer to four-year colleges).

- Public and nonprofit four-year colleges and universities, offering preparation for occupations requiring baccalaureat, graduate, or professional degrees.

- Special vocational training programs for disadvantaged adults, operating an ad hoc training delivery system (often under the auspices of a community-based organization such as the Opportunities Industrialization Center), typically with public funding.

Of all six types of institutions, the federal employment and training system has been heavily involved with the "supplier side" of the market—in building service delivery institutions—only in the final, quantitatively small category. There is every reason to assume that the existing supplier system represented by the first five categories can be relied upon to delivery training services, if only the issues of financial demand can be dealt with. This supplier system is geographically widespread. When all its components—public, private for-profit, and nonprofit--are taken together, it moves readily into virtually any open market niche.[1] It is already providing

[1] On the differentiation of products among these sectors of the industry, see Marc Bendick, Jr., "Education as a Three Sector Industry," in Burton A. Wiesbrod, The Voluntary Nonprofit Sector (Lexington, Mass.: D.C. Heath, 1977), especially pp.102-109.

the types of training services which dislocated workers appear to need. And, in an era of declining birth rates and declining population in the traditional school attending age ranges (5 through 21), the educational system has substantial underutilized capacity.

Of particular policy interest is the question of the extent to which the sixth category of suppliers--special training programs now serving the disadvantaged--should be redirected to provide services instead to the dislocated. For example, one might think of accomplishing some of this retargeting by eliminating the income eligibility limits for CETA services. With these nationally-imposed eligibility limits loosened, local CETA decisionmakers could then elect to serve either dislocated or disadvantaged individuals, depending on their local priorities. My own perspectives on the issue of dislocated workers--presented in this paper and the previous one[1]--do not support the desirability of such a move.

The primary reason for this negative conclusion is that the special educational needs of the disadvantaged differ from those of the dislocated; and, to the extent that these special delivery systems have developed special expertise or services not available elsewhere, this expertise is targeted to needs other than what dislocated workers require. In particular, disadvantaged workers often lack recent or stable work experience and consequently lack general work attitudes and habits learned on the job; and disadvantaged workers also often lack basic literacy, English-language, and arithmetic skills which are prerequisites to learning specific job skills. Therefore, the programs of many employment and training institutions for the disadvantaged typically feature large quantitites of both remedial general education and job attitude/ work habit development (through such means as formal training on these subjects and "starter" work experience). Dislocated workers are, by

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1 Bendick and Devine, "Workers Dislocated by Economic Change," op.cit.

definition, individuals with substantial work experience. Furthermore, the majority of dislocated workers have adequate general educational backgrounds. (Those that do not are typically both dislocated and disadvantaged and therefore are, presumably, eligible for remedial services under the former umbrella.)[1] A program of remedial general education and "starter" work experience would be quite beside the point for the majority of dislocated workers. Consequently, there would be few economies of scale or other efficiencies from servicing the retraining needs of dislocated workers through the same institutions developed to meet the needs of the disadvantaged.

Retraining Dislocated Workers in the Context of Midcareer Retraining in General

More relevant to meeting the training needs of dislocated workers today are the experience of various past and present federal programs serving various specific groups of dislocated workers. Prominent in this group are the activities under the Manpower Development and Training Act during the first half of the 1960's and more recent activities under the Trade Adjustment Assistance Program, Redwood Park Act, and other programs for specific groups of dislocated workers. For present purposes, the most significant fact to retain from such experiences is that retraining is apparently not appropriate for a substantial number—perhaps a majority—of dislocated workers; the key evidence for this conclusion is that when such services are offered on a free but voluntary basis, only a minority of eligible persons accept the offer.

At least four types of circumstances contribute to this pattern:

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[1] In my previous paper on dislocated workers, I estimated that 48 percent of dislocated workers are high school graduates, and an additional 17 percent have at least some education beyond high school. Thus, about 35 percent of dislocated workers do not have high school diplomas. See Bendick and Devine, "Workers Dislocated by Economic Change," op.cit., pp.202-203.

- Some workers who are officially designated dislocated eventually return to their former employment. This pattern held, for example, for some 70 percent of persons certified in the early years under the Trade Adjustment Assistance program;

- Some workers who change employers do not simultaneously change occupations. A secretary or a computer programmer, for example, typically can leave a declining industry for a growing one without any need to alter their skills;

- Some workers moving into new occupations do so either with no formal training or with training supplied by their new employers following hiring; and

- Some persons dislocated by economic change elect to leave the labor force rather than to seek reemployment. Retirement, seeking designation as disabled, and "taking time out to have a family" are three common forms of this circumstance.

While this range of possibilities make it perhaps less surprising that many individuals offered training are not interested, they should not lead us to ignore the concurrent situation that many adult workers who are not dislocated would be eager for training opportunities. These groups include some workers who are unemployed but for reasons not originating with structural change in the economy; some workers who are currently employed but who wish to change occupations; some workers who are currently employed but who wish to upgrade their skills to seek advancement; some workers who wish to modernize their skills to prevent being dislocated by economic change in the future; and some workers reentering the labor force (e.g., after "taking time out to have a family.") As the rate of structural economic change and technological change continues to increase, it is reasonable to expect that such seekers after midcareer retraining will increase.

The implications of all the factors which we have considered in this chapter are clear: It does not seem sensible for the federal government to prescribe retraining as a mandatory activity for dislocated workers. It does not seem sensible for the federal government to pair dislocated workers with disadvantaged workers for retraining purposes. And it does not seem sensible

for the federal government to aid the retraining of dislocated workers by intervening on the supplier side of the market. Instead, it seems more appropriate for the federal government to assist dislocated workers through financing of training—the demand side of the market—and to merge the training needs of dislocated workers in with those of other midcareer seekers of training. A possible approach to a delivery system for providing such services will be discussed in the next chapter of this report.

V. TWO NEW INSTITUTIONS FOR MIDCAREER WORKER TRANSFORMATION

In its three previous three chapters, this report has briefly examined three alternative major types of employment and training assistance which might be provided to dislocated workers. It reached generally negative conclusions on the potential utility of mobility assistance, while it reached generally positive conclusions concerning the potential utility of some types of job search assistance and retraining assistance. The purpose of this chapter is to suggest appropriate delivery systems for these two latter types of services.

From what is known about the characteristics and needs of workers dislocated by economic change—as reported in this paper and my previous paper on this subject[1]—one general principle emerges which must guide the design of these delivery systems. That principle is that the employment and training needs of dislocated workers are not shared generally with disadvantaged workers, but they are shared with the majority of the "mainstream" workforce.

Taking its cue from this basic theme, the present chapter will discuss two possible federal service delivery institutions for providing employment and training services in the United States. One, focusing on job search assistance efforts, is modeled on the Canadian Manpower Consultative Service. The other, for financing of training services, is modeled on the French Further Vocational Training System. In each case, the institution is envisioned as providing services to whoever in the labor market needs such services, with dislocated workers being served as part of that population; that is, these delivery systems are not proposed to be exclusively for the use of dislocated workers but rather to address failures of the private market for

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[1] Bendick and Devine, "Workers Dislocated by Economic Change, op.cit.

employment and training services which adversely affect dislocated workers simultaneously with many other workers as well.

Job Search Assistance in a Locale of Economic Decline

In chapter II of this report, we saw that many workers dislocated by economic change command only relatively weak job search skills, suffer from the psychological "doldrums" in terms of willingness to search while unemployed, and have access to suboptimal amounts of information on job opportunities which might be available locally or nationally. These characteristics they share with many of their fellow workers who are unemployed for reasons unrelated to structural economic change, with many workers seeking to reenter the labor force, and, indeed, with many currently-employed individuals who might be interested in changing jobs. And all these handicaps to efficient and effective job search are exacerbated when the search must be conducted in a locale of high unemployment or long-term economic decline.

What sort of job search assistance institution would be useful to overcome such barriers to reemployment? Michael C. Barth and Fritzie Reisner have studied an organization called the Canadian Manpower Consultative Service (MCS) as one possible model. Briefly, they describe MCS operations as follows.[1]

- When a plant shutdown or mass layoff situation arises, the MCS becomes involved immediately and temporarily (e.g., for a six month to twelve month period). Thus, it supplements the ongoing local labor market institutions at a time of peak demand.
- MCS's major role is that of coordinating, facilitating, and encouraging the mobilization of local resources, primarily those of local employers and local unions, into a local committee. It brings in a modest amount of matching funds for administrative expenses and the services of a case officer, but local government and private resources must also be contributed.

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[1] This material is drawn from chapter 4 of Barth and Reisner, Worker Adjustment, op. cit.

- All workers involved in the job reduction are contacted to see if employment assistance is desired. (Typically, 70 percent respond affirmatively.) Each individual expressing interest is then interviewed individually to determine the most appropriate form of assistance.

- Those workers who need or desire career counseling, training in job search skills, retraining, or relocation assistance are referred to the Canadian equivalent of the Job Service for such assistance.

- The major form of assistance provided to most workers—some 64 percent of all cases—is direct placement assistance. Here, the key role which the MCS and local committee play is to bring into the open jobs in the "hidden labor market" (i.e., which are typically filled by word of mouth).

As I would envision something like the MCS in operation in the United States, it would copy some aspects of the Canadian approach directly and modify others. For one thing, we saw earlier in this report that the U.S. Job Service is not equipped to provide much career counseling or training in job search skills. Therefore, it would seem advisable for an MCS-like agency to bring in the skills and resources to provide such services rather than to reply on the local Job Service. Second, I would see an MCS-like intervention being triggered not just by a particular mass layoff or plant closing but also by long-term regional decline or persistent unemployment. Third, I would open these services to all persons in the labor force in a locale, not just those directly affected by a layoff; this is because all job seekers in a labor market have increased difficulty finding jobs following a layoff, because of the increased competition from those laid off. Along with these modifications, however, I would preserve other aspects of the MCS approach: the role as a supplementer of existing services on a short-term basis, the tailoring to services of the needs of each individual worker, the nonbureaucratic style of operation, and the emphasis on mobilizing and enhancing local resources.

In my previous paper estimating the extent and need for federal employment and training assistance to workers dislocated by economic change, I concluded that there are three key pockets of such problems which require action:[1]

- o economic dislocation defined in terms of regional economic decline;
- o the uniquely massive unemployment problems of the motor vehicle manufacturing industry; and
- o the high levels of unemployment in a local area immediately following a mass layoff.

And earlier in the present report, we concluded that there is a failure of the private job placement market in the form of less-than-optimal job opportunity information and less-than-optimal job search skills. The Canadian Manpower Consultative Service deserves careful examination as a potential model for federal employment and training assistance designed to respond to these specific problems and failures.

A Social Insurance Fund for Midcareer Retraining

We also concluded, earlier in this report, that failure exists in the private market provision of financial support for midcareer worker retraining, for dislocated workers as well as many other workers. In searching for a model institution addressing such a problem, we turn to the French Further Vocational Training System.

The Further Vocational Training System in France was established by an agreement between employers' associations and trade unions concluded in 1970 and reinforced by laws in 1971 and 1976.[2] As a central feature of this

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[1] Bendick and Devine, "Workers Dislocated by Economic Change," op. cit., p.218.

[2] This description of the French system is based on Marc Bendick, Jr., and Mary Lou Egan, Midcareer Worker Retraining: A French Solution to An American Problem, Washington, D.C.: The Urban Institution, forthcoming.

system, every employer of 10 or more employees must support vocational training by making an annual contribution to the financing of training courses. Contributions are calculated as a percentage of the firm's total wage bill, with the percentage specified annually by the governnment in its yearly Finance Act; in 1975, it averaged 1.62 percent for all firms.

Employers may satisfy this contribution requirement in any of several ways:

- By financing internal training programs for their own staff, either conducting the training themselves or paying for the services of an outside training establishment through a multiyear agreement.
- By making a financial contribution to a training insurance fund, established by agreements between employers or employer associations and trade unions. These funds may be national or local.
- By making a financial contribution (limited to 10 percent of their contribution liability) to organizations experimenting with training methods other than organized training courses.
- By making a financial contribution to programs for unemployed persons in training centers approved by the government.
- By paying their contribution into the government treasury.

In practice, the vast majority of funds are allocated to the first of these methods, particularly among large firms; about eight percent of funds to go the second method, primarily among small and medium firms in industries with strong trade unions; and only one percent of funds is spent in the third way. Approximately 120,000 firms and over five billion French francs are involved each year; typically, one person in eight in the labor force receives some training during any year. Revenues may be used to finance trainees' wages during training, as well as the out-of-pocket costs of the training itself.

Workers may take advantage of training opportunities under this fund for a number of purposes, including "refresher" courses in their current occupations and advancement to higher-skill occupations. However, the use of

greatest relevance to the U.S. concern with dislocated workers is that these funds may be called upon for "adaptation" courses in which unemployed workers switch to new fields of work or for "preventive" courses in which currently-employed workers convert to new occupations created by technological change. Thus, the fund becomes a valuable device both to workers—in assuring continued employment despite economic change—and to employers—by providing a trained labor force for emerging labor force needs.

Because the fund provides wage replacement benefits and tuition payments to workers following dislocation, such a fund would tend to overcome the "cash flow" and "risk aversion" reasons that workers might not invest in their own training. At the same time, by forcing employers to expend at least a minimum level on training, it would address their reluctance to invest in "general human capital" training whose benefits they may not receive. Thus, such a fund can be seen primarily as addressing basic market failures in the retraining market, rather than the more ad hoc needs of dislocated workers per se. Such a correction of basic market failure deserves careful scrutiny as a possible new direction for federal employment and training assistance in the United States.